

DAIRY ISSUES DISCUSSION

2007 FARM BILL

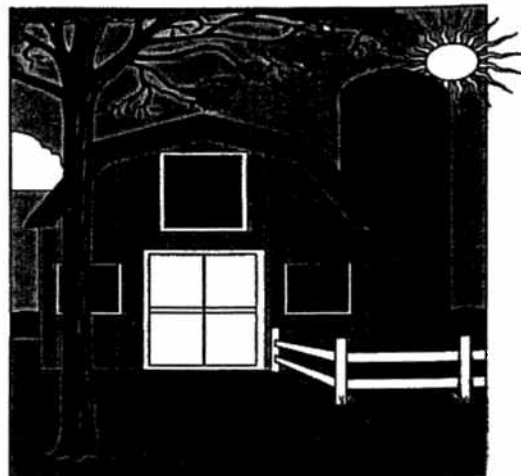


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THE 2007 FARM BILL

DAIRY TITLE

ISSUES:

- **SAFETY NET – MILC PROGRAM OR ANOTHER ALTERNATIVE**
- **FEDERAL PRICE SUPPORT PROGRAM**
- **TRADE AGREEMENTS: DOHA ROUND EFFECT ON DAIRY PROGRAMS**
- **COOPERATIVES WORKING TOGETHER – INDUSTRY FINANCED PROGRAM**
- **LAND STEWARDSHIP PROGRAMS – GREEN PAYMENTS**
- **REGIONAL OR STATE PROGRAMS**

KEY LEGISLATIVE ISSUES IN 2006

1. FY 2007 APPROPRIATIONS: USDA'S BUDGET REQUEST

- **3 CENT ASSESSMENT ON DAIRY FARMERS,
(\$678 MILLION SAVINGS OVER 10 YEARS)**
- **5% ACROSS THE BOARD CUT ON
COMMODITY PROGRAMS, INCLUDING MILC
(\$4.9 BILLION SAVINGS OVER 10 YEARS)**
- **FEDERAL PRICE SUPPORT PROGRAM
PURCHASES - - MINIMIZE COSTS AND
PURCHASE PRODUCTS ONLY WHEN REPORTED
PRICES ARE BELOW \$9.90 SUPPORT LEVEL
(\$618 MILLION SAVINGS OVER 10 YEARS)**

2. IMMIGRATION REFORM:

- **SENATE JUDICIARY COMMITTEE WILL LIKELY
INTRODUCE BILL NEXT MONTH**
- **WHAT TYPE OF AGRICULTURAL REFORM
COMPONENT WILL IT CONTAIN?**
- **HOUSE BILL - - BORDER SECURITY FOCUS
ONLY**

3. SUPERFUND LAW CLARIFICATION:

- **HR 4361 – HOUSE BILL HAS 60 COSPONSORS**
- **SENATE BILL TO BE INTRODUCED**
- **LARGE COALITION OF LIVESTOCK, POULTRY, FARM ORGANIZATIONS AND INDUSTRY GROUPS WORKING ON THIS**
- **PLANS ARE TO INSERT AMENDMENT ON A “MUST PASS” BILL**

4. FARM BILL HEARINGS:

- **PREPARATION FOR 2007 FARM BILL**
- **TIME LINE FOR HAVING PROPOSALS READY - BY LATE SUMMER OR EARLY FALL**

ESTIMATED MILC PAYMENTS FOR 2006

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SUMMARY OF 2001-2005 PAYMENTS PER STATE

ESTIMATED MILC PAYMENTS FOR 2006

2006 Boston Class I Price (dollars per hundredweight)		Estimated MILC Payment		
		Agri-Mark	Dairylea	NMPF
January	\$16.44	\$0.11	\$0.170	\$0.10.5
February	\$16.63	\$0.10	\$0.105	\$0.10.5
March	\$15.77	\$0.55	\$0.398	\$0.43.9
April	\$14.78	\$0.69	\$0.734	\$057.3
May	\$15.15	\$0.65	\$0.609	\$060.4
June	\$15.17	\$0.65	\$0.602	\$061.8
July	\$15.00	\$0.66	\$0.660	\$060.1
August	\$15.48	\$0.52	\$0.496	\$050.2
September	\$15.72	\$0.18	\$0.415	\$042.4
October	\$17.25	\$0.18	\$0.000	- - -
November	\$17.31	\$0.21	\$0.000	- - -
December	\$15.90	\$0.31	\$0.354	- - -
Avg. Payment		\$0.40	\$0.379	\$0.44.1

FY	Total Payments	6/8/2004
2003	1,795,487,582.51	
2004	207,852,483.62	YTD

Total Program Payments by State as of 5/14/2004	% of total for state
STATE	
ALABAMA	4,769,145.29 0.23909
ALASKA	376,616.90 0.01888
ARIZONA	8,807,163.26 0.44153
ARKANSAS	8,142,566.79 0.40821
CALIFORNIA	140,444,913.86 7.04093
COLORADO	9,959,762.14 0.49931
CONNECTICUT	6,813,080.92 0.34156
DELAWARE	1,982,367.22 0.09938
FLORIDA	11,521,408.25 0.5776
GEORGIA	17,538,766.83 0.87927
HAWAII	521,542.88 0.02615
IDAHO	38,058,759.87 1.908
ILLINOIS	37,589,220.91 1.88446
INDIANA	33,249,175.82 1.66688
IOWA	66,753,207.61 3.34654
KANSAS	17,333,069.68 0.86896
KENTUCKY	34,188,072.89 1.71395
LOUISIANA	12,452,506.80 0.62428
MAINE	11,221,216.13 0.56255
MARYLAND	19,777,667.23 0.99151
MASSACHUSETTS	7,489,633.03 0.37548
MICHIGAN	83,745,971.35 4.19844
MINNESOTA	162,812,913.61 8.16231
MISSISSIPPI	9,779,123.79 0.49026
MISSOURI	39,436,528.78 1.97707
MONTANA	5,414,082.48 0.27142
NEBRASKA	16,256,225.21 0.81497
NEVADA	2,206,357.47 0.11061
NEW HAMPSHIRE	5,582,135.43 0.27985
NEW JERSEY	4,381,004.07 0.21963
NEW MEXICO	13,826,494.53 0.69316
NEW YORK	186,170,806.27 9.33331
NORTH CAROLINA	17,024,187.72 0.85347
NORTH DAKOTA	9,998,785.50 0.50127
OHIO	75,567,424.10 3.78843
OKLAHOMA	13,748,476.34 0.68925
OREGON	18,332,349.51 0.91906
PENNSYLVANIA	178,904,447.51 8.96903
PUERTO RICO-NAT	15,107,658.13 0.75739
RHODE ISLAND	488,010.21 0.02447
SOUTH CAROLINA	5,265,722.95 0.26399
SOUTH DAKOTA	22,433,468.44 1.12466
TENNESSEE	26,903,573.46 1.34876
TEXAS	44,545,402.97 2.2332
UTAH	17,604,155.98 0.88255
VERMONT	45,091,217.33 2.26056
VIRGIN ISLANDS	105,681.26 0.0053
VIRGINIA	32,434,318.97 1.62603
WASHINGTON	35,876,887.24 1.79862
WEST VIRGINIA	4,355,068.26 0.21833
WISCONSIN	411,188,285.66 20.6141
WYOMING	1,115,623.93 0.05593
TOTAL	1,994,692,252.77

SOURCE: USDA FSA

FEDERAL PRICE SUPPORT PROGRAM

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**SUMMARY OF CCC PURCHASES
FY2000-2005**

FEDERAL DAIRY PRICE SUPPORT PROGRAM

CCC PURCHASES OF NON-FAT DRY MILK POWDER, BUTTER AND CHEESE BY STATE, FY2000-2005

State	2000 (million \$)	2001 (million \$)	2002 (million \$)	2003 (million \$)	2004 (million \$)	2005 (million \$)	State Totals 2000-2005 (million \$)
MN	1.7	1.6	--	--	--	--	3.3
WA	79.3	47.3	49.8	37.3	29.2	--	242.9
AZ	12.4	21.3	30.4	36.6	13.6	--	114.3
CA	290.5	263.5	361.4	277.8	181.1	21.7	1.396 billion
IA	15.5	2.9	1.6	--	--	--	20.0
ID	29.5	45.2	52.3	85.5	50.9	--	263.4
IN	2.7	--	1.6	--	--	--	4.3
LA	4.6	--	5.7	--	--	--	10.3
NM	22.5	9.6	18.5	44.4	13.8	0.7	109.5
OR	1.6	--	0.2	--	--	--	1.8
PA	5.1	6.9	27.8	26.3	3.4	0.6	70.1
TX	24.1	--	22.4	17.0	7.0	1.1	71.6
WI	--	1.1	--	--	--	--	1.1
UT	--	1.0	--	--	--	--	1.0
CO	--	--	--	--	1.8	0.4	2.2

Total CCC purchases, FY2000-2005: \$2.3 billion

Source: USDA Commodity Credit Corporation, Kansas City, Missouri

Summary of Data:

- California leads all states with almost \$1.4 billion in purchases.
- Idaho, Washington, Arizona and New Mexico rank second, third, fourth and fifth respectively.
- CCC purchases dropped off significantly in 2005.
- Purchases in 2006 are expected to increase.

WTO & THE DOHA ROUND OF TRADE TALKS

POTENTIAL EFFECT ON DAIRY PROGRAMS

FARM BILL CROP PROGRAM COSTS AND THE WTO

Background Paper

Provision in 2002 Farm Bill: *If the Secretary of Agriculture determines that the aggregate measure of support (AMS)*ceiling is exceeded, the Secretary shall, to the maximum extent practicable adjust ceilings to avoid exceeding allowable levels.*

WTO AMBER BOX TRADE DISTORTING AMS LEVELS

The 1986-1988 Amber Box ceiling for trade distorting supports for the United States was established during the Uruguay Round of Trade Negotiations to be \$23,879billion. This figure was reduced by 20% until the year 2002, or for a total figure of \$19.1 billion, that exists to this day, or until the next round of multinational trade negotiations are completed. Dairy supports represent approximately 23% of this \$19.1 billion base, or \$4.4 to 4.5 billion.

Note: The "aggregate measurement of support" (AMS), is measured as the sum of certain trade distorting commodity-specific and non-commodity specific farm program benefits. These AMS benefits include those from direct government payments as well as market price supports that are provided to farmers based on the level of current production, price, resource use, or inputs.

Compiled by Roger Allbee 2/10/6

SOME FARM BILL ALTERNATIVES TO AVOID POSSIBLE WTO CHALLENGES

- *Accept very significant subsidy cuts*
- *Shift more funds into “green box” payments*
- *Convert subsidies into WTO legal programs such as:*
 - *Entrepreneurial development...value added, product development, marketing, etc.*
 - *On farm energy production*
 - *Soil and water conservation*
 - *Other—applied research*

Summary of Main Criteria for Allowable Domestic Support

Type of measure Main criteria

General services Must not involve direct payments to producers or processors

Public stockholding Volumes governed by legislated food security targets; financial transparency; purchase and sale at current market prices

Domestic food aid Clearly defined eligibility criteria based on nutritional objectives; financial transparency; purchase and sale at current market prices

Decoupled income Clearly defined eligibility criteria for a fixed base period; payments support not related to the volume of production, prices, or factors of production in any year after the base period; no requirement to produce to receive payments

Income insurance and Eligibility based on income loss >30 percent of average gross income income safety nets for the previous three-year period or three-year average excluding high/low from a five-year period; compensation less than 70 percent of the income loss; no linkage to production, prices or factors of production

Disaster payments Production loss >30 percent of the average for the previous three-year period or three-year average excluding high/low from a five-year period; only for loss of income, livestock, land and other production factors; no more than replacement cost and not linked to requirements for future production; if during a disaster no more than that required to alleviate further loss

Producer retirement Clearly defined eligibility criteria to facilitate retirement or switch to nonschemes agricultural activities; conditional upon total and permanent retirement from marketable agricultural production

Resource retirement Clearly defined eligibility criteria to remove land or other resources from schemes marketable agricultural production; land retirement for a minimum of three years; slaughter or definitive permanent disposal of livestock; no required alternative use for marketable agricultural production; payments not related to volume of production or other resources remaining in production

Investment aids Clearly defined eligibility criteria to assist financial or physical restructuring for objectively demonstrated structural disadvantages; payments not based on production or prices in any year after a base period; provided for a fixed period of time; no mandate for future production (except no production); limited to the amount to compensate for structural disadvantage

Environmental payments Part of clearly defined environmental or conservation program linked to production methods or inputs; payment limited to extra costs or loss of income caused by compliance

Regional assistance Limited to producers in objectively identified disadvantaged regions; payments not based on production in any year after a base period (other than to reduce production) or prices; available to all producers in eligible regions; limited to extra costs or loss of income related to undertaking agricultural production in the prescribed area

Source: Congressional Research Service

Classification of U.S. Policies

The last U.S. notification to the WTO was for 1997. Following are examples of how various U.S. domestic policies were classified in that notification:

Green Box Policies

- USDA research, cooperative extension, and economics programs;
- Animal and Plant Health Inspection Service (APHIS) pest and disease programs;
- Food Safety and Inspection Service (FSIS) meat and poultry inspection;
- Agricultural Marketing Service (AMS), Grain Inspection, Packers and Stockyards Administration (GIPSA), and other marketing services, including grading, quality inspection, and market news;
- Domestic food programs, including food stamps, school food, the special supplemental food program for women, infants, and children (WIC), and Section 32 food purchases;
- Agricultural Market Transition Act (AMTA) (production flexibility) payments; which are considered "decoupled";
- Food security commodity reserve;
- Disaster payments for livestock and crop losses due to natural disasters;
- Conservation programs like conservation operations and the Environmental Quality Incentives Program (EQIP);
- Farm credit including Farm Service Agency (FSA) farm ownership and operating loans; and state mediation programs;
- The Conservation Reserve Program (CRP, considered to be exempt as structural adjustment through resource retirement).

Blue Box Policies

- Target price deficiency payments (which ended with 1996 farm law).

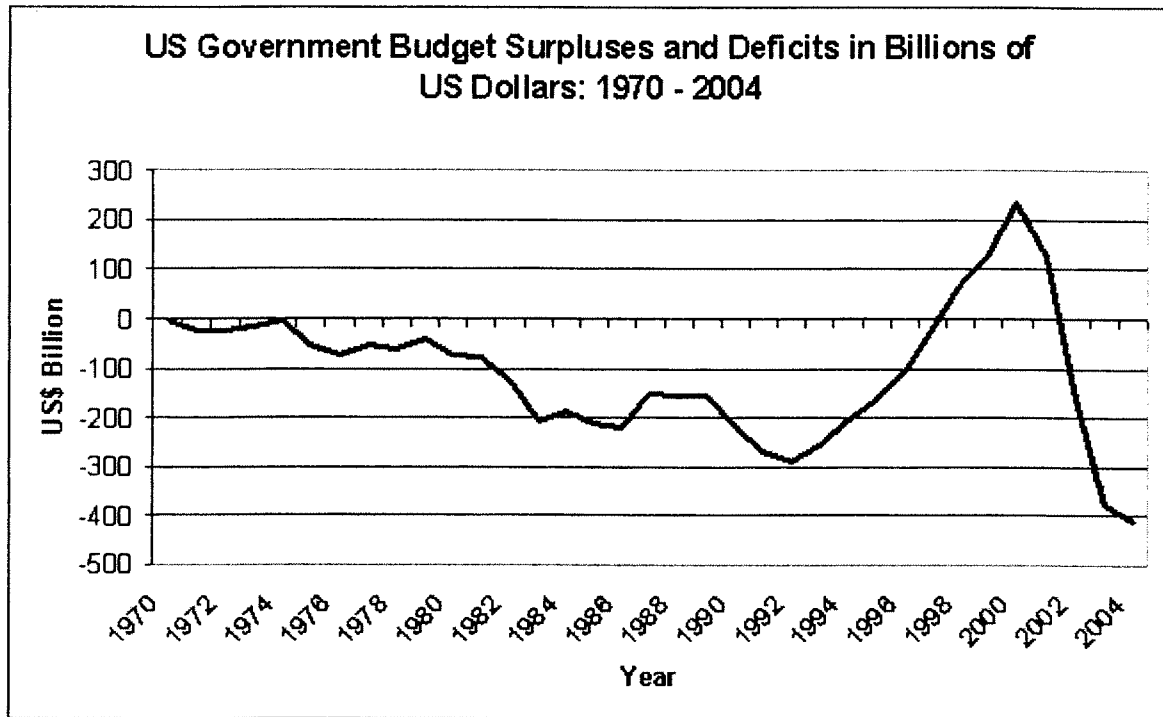
Amber Box Policies

Product-specific support:

- Dairy price support;
- Sugar price support;
- Peanut price support;
- Marketing loan benefits, including gains from repaying marketing loans at less than the loan rate; loan deficiency payments; user marketing certificates; etc.;
- Storage payments.

Non-product specific support:

- Irrigation programs;
- Grazing programs;
- Federal crop insurance (value of indemnities less premiums paid).

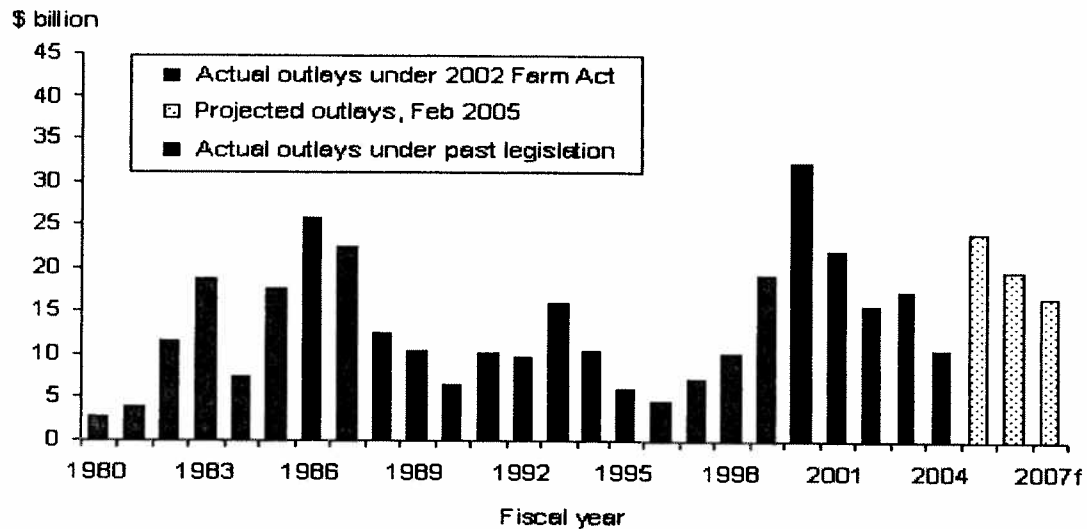


Source: Congressional Budget Office

WTO AGRICULTURAL NEGOTIATION BOXES

- A. AMBER BOX:** Support is linked to production. The MILC program as well as the dairy compact falls within this box.
- B. GREEN BOX:** Non-trade distorting and **SUPPORT IS NOT LINKED** to production. There is no AMS, or aggregate measure of support cap under the WTO, and thus WTO members are free to establish policies in this category. Example of programs that are classified as Green Box programs include: soil and water conservation, protecting the landscape for tourism (ag development rights purchase); direct income transfer to farmers on some historical base; and public goods like research, extension, and teaching, to name a few.
- C. BLUE BOX:** Although policies here could influence production, they are allowed and are considered “non-trade distorting” if they include a constraint such as a land set-aside program or marketing quota.

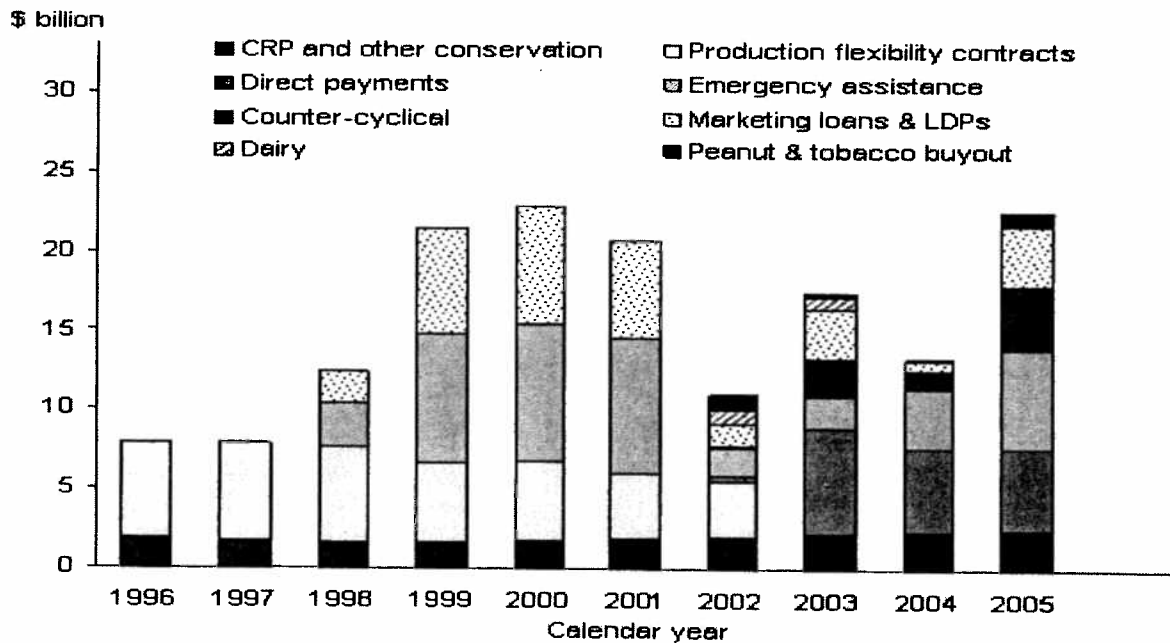
Commodity Credit Corporation (CCC) net outlays*



* The Commodity Credit Corporation (CCC) is a Federally owned and operated corporation within the U.S. Department of Agriculture created to stabilize, support, and protect farm income and prices through loans, purchases, payments, and other operations. All money transactions for agricultural price and income support and related programs are handled through the CCC.

Sources: USDA, CCC Budget, February 2005.

Direct government payments



Source: Data Farm Income, November 2005. Economic Research Service, USDA.

DAIRY INDUSTRY SELF HELP PROGRAM

“COOPERATIVES WORKING TOGETHER”

**DAIRY INDUSTRY FINANCED
COOPERATIVES WORKING TOGETHER (CWT)
HERD RETIREMENT PROGRAM SUMMARY**

	2003 Round 1	2004 Round 2	2005 Round 3
No. of Farms (Herds retired)	299	363	442
Number of Cows (Total)	32,724	50,478	64,069
Pounds of Milk Removed	696 million	908 million	1.2 billion
Average Bid	\$4.02/cwt	\$5.25/cwt	\$6.75/cwt

- CWT is a voluntary privately financed industry operated program.
- The CWT program assesses dairy producers 5 cents per hundredweight on all milk produced.
- 74.1% of the milk produced in the U.S. takes part in the program.
- This represents approximately 130 billion pounds (U.S. produces about 176 billion pounds of milk annually).
- The program raises about \$65 million per year.
- The funds are utilized for the Herd Retirement Program and for export assistance of cheese and butter.
- As the number of herds retired increase, the average cost of the bid goes up exponentially.
- The CWT program has helped to stabilize farm milk prices. However, the funding available for both herd retirement and export assistance is not substantial enough to prevent the market from crashing if over-production of milk occurs over a sustained period of time.
- In the last six months almost 3 million pounds of cheese and butter have received export assistance.
- About 12.4 million pounds of cheese and butter have received export assistance under CWT since 2003.
- National Milk Producers Federation which operates the program is considering requesting that the participants in CWT increase their assessment level another five cents to 10 cents per hundredweight.

CWT Export Assistance Bids

Bid Date	Bidder	Volume	Destination	Product
12/31/03	DFA	20 MT	Japan	Cheddar
1/16/04	DFA	1000 MT	Saudi Arabia	Cheddar
1/16/04	DFA	250 MT	Jordan	Cheddar
1/16/04	DFA	250 MT	Jordan	Cheddar
1/16/04	DFA	20 MT	Japan	Cheddar
1/22/04	WestFarm	20 MT	Japan	Cheddar
7/16/04	DFA	40 MT	Netherlands	Cheddar
7/20/04	DFA	1500 MT	Europe	Cheddar
7/27/04	DFA	40 MT	Netherlands	Cheddar
7/27/04	DFA	160 MT	South Korea	Cheddar
8/4/04	DFA	140 MT	Egypt	Cheddar
8/6/04	DFA	100 MT	Algiers	Cheddar
9/15/04	DFA	10 MT	Israel	Cheddar
12/10/04	Land O' Lakes	50 MT	South Korea	Cheddar
6/6/05	Land O' Lakes	60 MT	South Korea	Cheddar
7/27/05	Land O' Lakes	400 MT	South Korea	Cheddar
8/9/05	Land O' Lakes	120 MT	Netherlands	Cheddar
11/14/05	DFA	126 MT	South Korea	Cheddar
11/17/05	DFA	72 MT	South Korea	Cheddar
11/22/05	DFA	20 MT	Japan	Cheddar
12/5/05	Land O' Lakes	270 MT	South Korea	Cheddar
12/9/05	DFA	20 MT	Japan	Cheddar
12/20/05	WestFarm	140 MT	Israel	Butter
1/12/06	Foremost Farms	19.3 MT	Morocco	Mozzarella
1/20/06	DFA	15 MT	Israel	Colby, Swiss, Cheddar
1/20/06	DFA	.53 MT	Barbados, W.I.	Colby, Swiss, Monterey Jack
1/27/06	California Dairies	300 MT	Honduras	Butter
1/27/06	DFA	19.3 MT	Trinidad, British W.I.	Cheddar
1/31/06	LOL	150 MT	Israel	Butter
2/1/06	DFA	140 MT	India	Cheddar
2/8/06	DFA	.248 MT	Panama	Mozzarella
2/13/06	DFA	19.2 MT	Taiwan	Mozzarella